

PADUCAH INDEPENDENT SCHOOL DISTRICT

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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Independent Auditor's Report

Kentucky State Committee For School
District Audits
Paducah Independent School District
Members of the Board
Paducah, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Paducah Independent School District, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the District has restated its beginning fund balance and beginning governmental activities net assets to correct beginning short term sick leave.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005, on our consideration of Paducah Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 33 and 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Paducah Independent School District's basic financial statements. The additional information shown on pages 35 through 47 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 48 and 49 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Paducah Independent School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Williams, William Lenty, LLP". The signature is written in a cursive, flowing style.

July 28, 2005

REQUIRED SUPPLEMENTARY INFORMATION

**PADUCAH INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Paducah Independent School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The District had fund balances on July 1, 2004, of \$1.9 million. This total incorporates all funds, including Governmental, Proprietary and Fiduciary.
- The Board finally began a major construction project to rebuild the District bus facility. Although this project was approved in the prior year, the new Superintendent placed the project on hold. Construction finally began in May 2005. No new bonds were issued in fiscal year 2005.
- Dr. Randy J. Greene assumed the position of Superintendent on July 1, 2004. He replaced Dr. R. Vance Ramage who retired June 30, 2004.
- The General Fund had \$19,894,511 in revenue primarily from the state program (SEEK), property taxes, local occupational license taxes, utility taxes, motor vehicle taxes, and state insurance and retirement on-behalf payments. On-behalf payments are payments made directly by the state for our staff (i.e. retirement and insurance). Subtracting the \$3,223,386 in on-behalf payments, General Fund revenue amounted to \$16,671,125.
- General Fund had total expenditures equaling \$17,078,780 excluding the on-behalf expenses.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt and interest due decreased by \$871,310 during the current fiscal year.
- There were no significant changes in any of the individual funds affecting the use of resources.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, the changes in net assets, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net assets indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. The District uses an accrual basis of accounting, commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

(Continued)

The government-wide financial statements outline functions of the District normally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary fund is food service operations. Fiduciary funds are held as trust funds established by benefactors to aid in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statement can be found on pages 10-18 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19-32 of this report.

COMMENTS ON AFR BUDGET COMPARISONS

- During the fiscal year ended June 30, 2005, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's total revenues for the fiscal year ended June 30, 2005, net of state on-behalf payments, were \$17.75 million. This includes a beginning balance of \$1.08 and receipts of \$16.67.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item, with the ending actual balance \$223,116 less than budget or approximately 1.2 percent.
- The total cost of all General fund programs and services was \$16.95 million excluding transfers for gifted and technology programs to special revenue fund and state on-behalf payments.
- General Fund actual expenditures, compared to budgeted appropriations, were \$892,000 less.
- Actual expenditures of \$17.08 million were \$670,000 less than the actual receipts and beginning balance of \$17.75 million.
- By comparing actual receipts of \$16.67 million and expenditures of \$17.08 million, the District reduced its beginning balance by \$407,000 from \$1.08 million to \$670,000.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by 3.8 million as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; as a result, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The District's financial position is the result of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Continued)

Net Assets for the Years Ended June 30

The following compares this year's assets with last year's assets:

	<u>2005</u>	<u>2004</u>
Current assets	\$ 2,184,525	\$ 2,513,595
Noncurrent assets	<u>9,596,721</u>	<u>10,039,243</u>
Total assets	<u>11,781,246</u>	<u>12,552,838</u>
Current liabilities	1,273,938	1,277,596
Noncurrent liabilities	<u>6,667,858</u>	<u>7,231,687</u>
Total liabilities	<u>7,941,796</u>	<u>8,509,283</u>
Net Assets:		
Investment in capital assets (net of debt)	1,712,332	2,287,405
Restricted	857,031	746,946
Unreserved fund balance	<u>1,270,087</u>	<u>1,009,204</u>
TOTAL NET ASSETS	<u>\$ 3,839,450</u>	<u>\$ 4,043,555</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

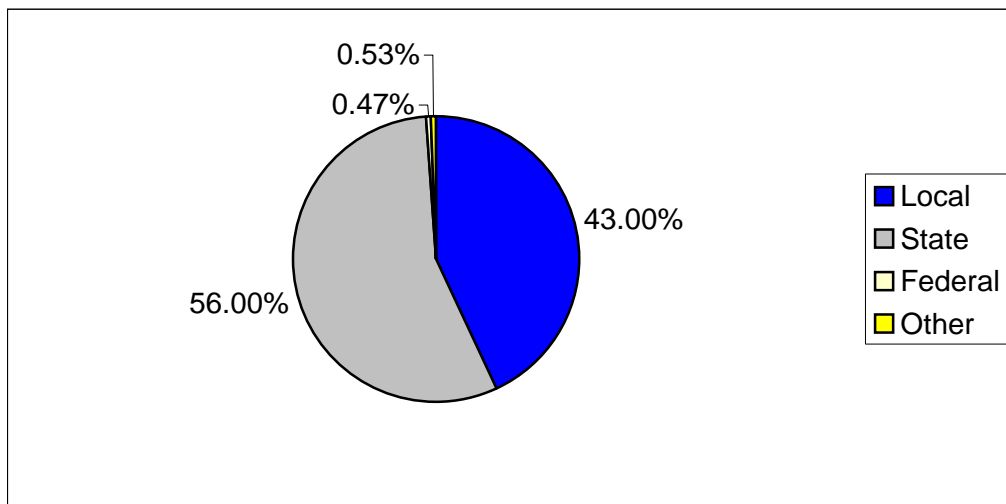
- The District began construction on a new bus maintenance facility.
- Technology purchases continued by replacing outdated systems.

The following table presents a summary of revenue and expense for the fiscal years ended June 30:

	<u>2005</u>	<u>2004</u>
Revenues:		
Charges for services	\$ 437,814	\$ 472,732
Operating grants and contributions	6,844,434	7,013,939
Capital grants and contributions	596,837	553,003
Taxes	7,502,525	7,420,766
State aid	9,331,550	9,491,380
Federal aid	16,393	-
Investment earnings	45,262	22,152
On-behalf payments	3,280,176	3,238,612
Gain on sale of equipment	7,457	150
Loss compensation	-	165,473
Transfers	-	29,024
Other	<u>73,273</u>	<u>24,769</u>
Total revenues	<u>28,135,721</u>	<u>28,432,000</u>
Expenses:		
Instruction	17,344,920	16,656,415
Student support services	811,265	826,357
Instructional support	1,030,074	1,181,404
District administration	927,478	1,009,000
School administration	1,917,576	2,129,811
Business support	704,851	784,689
Plant operations	2,421,280	2,510,704
Student transportation	903,055	986,693
Community support	481,320	654,326
Food service operations	1,632,285	1,506,075
Other	<u>365,722</u>	<u>500,184</u>
Total expenses	<u>28,539,826</u>	<u>28,745,658</u>
CHANGE IN NET ASSETS	<u>\$ (404,105)</u>	<u>\$ (313,658)</u>

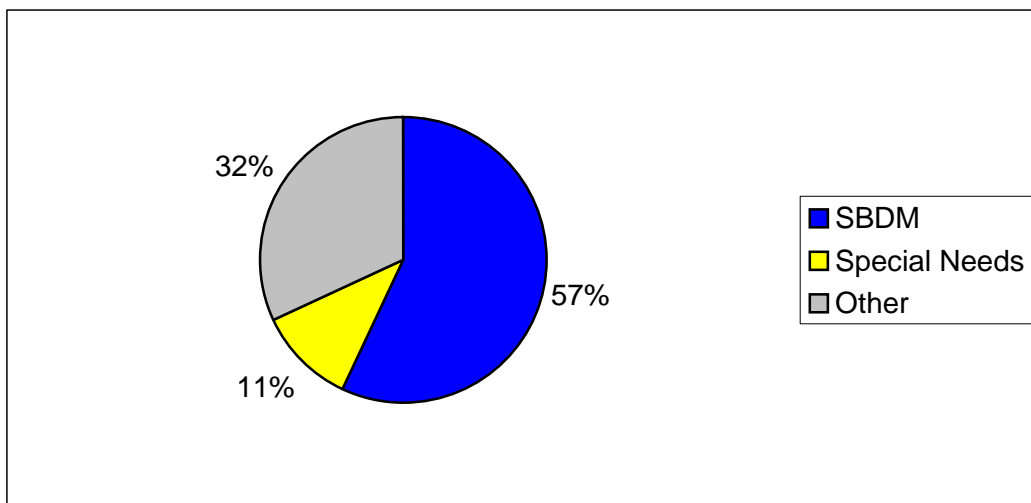
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General Fund Revenue Chart 1



The majority of revenue was derived from state funding at 53% and local funding at 46%. All other funding sources accounted for less than 1 percent of total General Fund revenue.

General Fund Budget Allocation Chart



Site Based Decision Making Councils expended 57% or \$9.8 million of the General Fund budget. An additional \$1.8 million or 11% of Non-SBDM money was spent serving children with special needs. The remaining 32% was expended in district-wide support services and central office support.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the District had \$9,391,818 invested in land, buildings, and equipment. Of that amount, \$9,352,797 is in governmental activities.

There were no significant changes in buildings. The bus facility is in the process of being rebuilt, but will not be completed until the 2006 school year.

See footnote 6 for a breakdown of additions by class on pages 27-28.

Debt Administration

The District had \$7,075,000 in bonds outstanding on June 30, 2005. A total of \$545,000 is due within one year.

See note 7 on pages 28-29 for a detailed listing.

BUDGETARY IMPLICATIONS

In Kentucky, the fiscal year for public schools runs from July 1 – June 30; other programs, e.g., federal programs such as Head Start, operate on a different fiscal calendar, but are reflected in the District's overall budget.

By law, the District must maintain a 2% contingency. The District ended the year with a 2.51% contingency. The District has developed a budget for the next fiscal year that contains a 3.15% contingency. Significant Board actions may impact this budget during the year. The Board has already approved a 3% pay increase for all staff except the superintendent as mandated by the state. The bus maintenance facility project will be completed by November of 2005. No new construction projects are anticipated to begin in the upcoming year.

Questions regarding this report should be directed to the Superintendent, Dr. Randy Greene (270-444-5600), or Julie D. Huff, Director of Finance (270-444-5600 Ext. 5611), or by mail at P. O. Box 2550, Paducah, KY 42002-2550.

BASIC FINANCIAL STATEMENTS

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 1,140,392	\$ (93,334)	\$ 1,047,058
Accounts receivable:	-		
Taxes	332,342	-	332,342
Delinquent taxes, net of reserve of \$153,000	267,807	-	267,807
Accounts	17,639	-	17,639
Intergovernmental - state	29,609	-	29,609
Intergovernmental - federal	305,128	87,047	392,175
Prepaid expenses	70,810	-	70,810
Inventories	-	27,085	27,085
Deferred bond issuance costs and discounts	134,903	-	134,903
Nondepreciated capital assets:			
Land	503,386	-	503,386
Construction-in-progress	258,837	-	258,837
Depreciated capital assets:			
Land improvements	957,652	-	957,652
Buildings	22,428,980	-	22,428,980
Furniture and equipment	4,503,373	408,333	4,911,706
Less: accumulated depreciation	(19,229,431)	(369,312)	(19,598,743)
TOTAL ASSETS	<u><u>\$11,721,427</u></u>	<u><u>\$ 59,819</u></u>	<u><u>\$11,781,246</u></u>
 <u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Accounts payable	\$ 286,466	\$ 1,413	\$ 287,879
Deferred revenues	301,891	-	301,891
Long-term obligations:			
Due within one year:			
Bond and lease obligations	545,000	-	545,000
Interest payable	118,962	-	118,962
Construction retainage	20,206	-	20,206
Due beyond one year:			
Bond and lease obligations	6,530,000	-	6,530,000
Accrued sick leave payable	137,858	-	137,858
Total liabilities	<u>7,940,383</u>	<u>1,413</u>	<u>7,941,796</u>
Net Assets:			
Invested in capital assets, net of related debt	1,673,311	39,021	1,712,332
Restricted for:			
Capital projects	585,272	-	585,272
Encumbrances	151,137	-	151,137
SBDM	57,622	-	57,622
Accrued sick leave	63,000	-	63,000
Unrestricted	1,250,702	19,385	1,270,087
Total net assets	<u>3,781,044</u>	<u>58,406</u>	<u>3,839,450</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$11,721,427</u></u>	<u><u>\$ 59,819</u></u>	<u><u>\$11,781,246</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Instruction	\$17,344,920	\$ 27,500	\$4,573,039	\$ -	\$(12,744,381)	\$ -	\$(12,744,381)
Support services:							
Student	811,265	-	57,854	-	(753,411)	-	(753,411)
Instructional staff	1,030,074	-	297,075	-	(732,999)	-	(732,999)
District administration	927,478	-	8,655	-	(918,823)	-	(918,823)
School administration	1,917,576	-	235,428	-	(1,682,148)	-	(1,682,148)
Business	704,851	-	-	-	(704,851)	-	(704,851)
Plant operations and maintenance	2,421,280	-	36,082	-	(2,385,198)	-	(2,385,198)
Student transportation	903,055	-	47,509	-	(855,546)	-	(855,546)
Community service	481,320	-	461,987	-	(19,333)	-	(19,333)
Facility acquisition and construction	-	-	-	596,837	596,837	-	596,837
Interest on long-term debt	365,722	-	-	-	(365,722)	-	(365,722)
Total governmental activities	26,907,541	27,500	5,717,629	596,837	(20,565,575)	-	(20,565,575)
Business-type Activities:							
Food services	1,632,285	410,314	1,126,805	-	-	(95,166)	(95,166)
TOTAL SCHOOL DISTRICT	\$28,539,826	\$437,814	\$6,844,434	\$596,837	(20,565,575)	(95,166)	(20,660,741)
General revenue and receipts:							
Taxes:							
Property					4,927,375	-	4,927,375
Motor vehicle					585,463	-	585,463
Utility					1,700,588	-	1,700,588
In lieu					289,099	-	289,099
State aid - formula grants					9,331,550	-	9,331,550
Federal - formula grant					16,393	-	16,393
Investment earnings					45,091	171	45,262
On-behalf payments					3,223,386	56,790	3,280,176
Other					73,273	-	73,273
Special items:							
Gain on sale of equipment					7,457	-	7,457
Total general revenue and special items					20,199,675	56,961	20,256,636
Change in nets assets					(365,900)	(38,205)	(404,105)
Net assets, July 1, 2004					4,146,944	96,611	4,243,555
NET ASSETS, JUNE 30, 2005					\$ 3,781,044	\$ 58,406	\$ 3,839,450

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>ASSETS</u>	General Fund	Special Revenue (Grant) Funds	FSPK Fund	Construction Fund	Nonmajor Funds	Total Governmental Funds
Cash and cash equivalents	\$439,538	\$ (8,630)	\$330,399	\$129,674	\$249,411	\$1,140,392
Accounts receivable:						
Taxes	332,342	-	-	-	-	332,342
Accounts	13,400	4,239	-	-	-	17,639
Intergovernmental - state	-	29,609	-	-	-	29,609
Intergovernmental - federal	-	305,128	-	-	-	305,128
Prepaid expenses	70,810	-	-	-	-	70,810
TOTAL ASSETS	\$856,090	\$330,346	\$330,399	\$129,674	\$249,411	\$1,895,920
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$123,731	\$ 28,455	\$ 34,280	\$100,000	\$ -	\$ 286,466
Deferred revenues	-	301,891	-	-	-	301,891
Total liabilities	123,731	330,346	34,280	100,000	-	588,357
Fund Balances:						
Reserved for SBDM	57,622	-	-	-	-	57,622
Reserved for encumbrances	101,894	-	-	-	49,243	151,137
Reserved for accrued sick leave	63,000	-	-	-	-	63,000
Reserved for capital projects	-	-	296,119	29,674	125,199	450,992
Reserved for debt service	-	-	-	-	74,969	74,969
Unreserved	509,843	-	-	-	-	509,843
Total fund balances	732,359	-	296,119	29,674	249,411	1,307,563
TOTAL LIABILITIES AND FUND BALANCES	\$856,090	\$330,346	\$330,399	\$129,674	\$249,411	\$1,895,920

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances per fund financial statement	\$ 1,307,563
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$ 28,652,228	
Accumulated depreciation	<u>(19,229,431)</u>	9,422,797

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.

Delinquent taxes	267,807
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Deferred charges including debt issue costs are amortized in the governmental activities, but were recognized in full in the governmental funds.	134,903
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Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.

Interest payable	(118,962)	
Construction retainage	<u>(20,206)</u>	(139,168)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bond and lease obligations	(7,075,000)	
Accrued sick leave payable	<u>(137,858)</u>	<u>(7,212,858)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,781,044</u></u>
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Note: Nonmajor funds consist of the Seek Capital Outlay Fund and Debt Service Fund.

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue (Grant) Funds	FSPK Fund	Construction Fund	Nonmajor Funds	Totals Governmental Funds
Revenues:						
Taxes	\$ 7,057,920	\$ -	\$ 440,941	\$ -	\$ -	\$ 7,498,861
Earnings on investments	30,216	2,247	9,399	-	3,229	45,091
Intergovernmental - state	12,554,937	1,021,405	333,107	-	263,730	14,173,179
Intergovernmental - federal	63,690	4,579,693	-	-	-	4,643,383
Other	100,772	69,234	-	-	-	170,006
Total revenues	<u>19,807,535</u>	<u>5,672,579</u>	<u>783,447</u>	<u>-</u>	<u>266,959</u>	<u>26,530,520</u>
Expenditures:						
Current:						
Instruction	12,206,112	4,573,968	-	-	-	16,780,080
Support services:						
Student	752,403	57,853	-	-	-	810,256
Instructional staff	723,100	297,075	-	-	-	1,020,175
District administration	898,582	8,655	-	-	-	907,237
School administration	1,671,365	235,428	-	-	-	1,906,793
Business	750,589	-	-	-	-	750,589
Plant operations and maintenance	2,391,588	36,082	-	-	-	2,427,670
Student transportation	780,943	47,509	-	-	-	828,452
Community service	1,987	461,987	-	-	-	463,974
Facility acquisition and construction	-	-	138,630	100,000	-	238,630
Debt Service:						
Principal	-	-	-	-	520,000	520,000
Interest and other charges	-	-	-	-	351,310	351,310
Total expenditures	<u>20,176,669</u>	<u>5,718,557</u>	<u>138,630</u>	<u>100,000</u>	<u>871,310</u>	<u>27,005,166</u>
Excess (deficit) of revenues over expenditures	<u>(369,134)</u>	<u>(45,978)</u>	<u>644,817</u>	<u>(100,000)</u>	<u>(604,351)</u>	<u>(474,646)</u>
Other Financing Sources (Uses):						
Proceeds from sale of assets	7,457	-	-	-	-	7,457
Operating transfers in	79,519	125,497	-	-	867,419	1,072,435
Operating transfers out	<u>(125,497)</u>	<u>(79,519)</u>	<u>(671,252)</u>	<u>-</u>	<u>(196,167)</u>	<u>(1,072,435)</u>
Total other financing sources (uses)	<u>(38,521)</u>	<u>45,978</u>	<u>(671,252)</u>	<u>-</u>	<u>671,252</u>	<u>7,457</u>
Net change in fund balances	(407,655)	-	(26,435)	(100,000)	66,901	(467,189)
Fund balances, July 1, 2004	<u>1,140,014</u>	<u>-</u>	<u>322,554</u>	<u>129,674</u>	<u>182,510</u>	<u>1,774,752</u>
FUND BALANCES, JUNE 30, 2005	<u>\$ 732,359</u>	<u>\$ -</u>	<u>\$ 296,119</u>	<u>\$ 29,674</u>	<u>\$ 249,411</u>	<u>\$ 1,307,563</u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCE	\$ (467,189)
----------------------------	--------------

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.

Depreciation expense	\$ (737,889)	
Capital Outlays	331,304	(406,585)

Bond proceeds are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal paid	520,000
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Governmental funds report the effect of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Amortization of deferred bond issuance cost and discounts	(21,935)
---	----------

Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	3,663
------------------	-------

Construction retainage payable is not recognized on the fund statements since it does not require the use of current financial resources. The expense is recognized when incurred in the statement of activities.

Construction retainage	(20,206)
------------------------	----------

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resource, but expense is recognized in the statement of activities when they are incurred. These net differences are as follows:

Accrued interest expense	7,523	
Accrued sick leave	18,829	26,352

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ (365,900)
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See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

<u>ASSETS</u>	<u>Enterprise Fund Food Services</u>
Current Assets:	
Cash and cash equivalents	\$ (93,334)
Accounts receivable:	
Intergovernmental - federal	87,047
Inventories	27,085
	<hr/>
Total current assets	20,798
	<hr/>
Noncurrent Assets:	
Furniture and equipment	408,333
Less accumulated depreciation	(369,312)
	<hr/>
Total noncurrent assets	39,021
	<hr/>
TOTAL ASSETS	\$ 59,819
	<hr/> <hr/>
 <u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:	
Accounts payable	\$ 1,413
	<hr/>
Net Assets:	
Invested in capital assets	39,021
Unrestricted	19,385
	<hr/>
Total net assets	58,406
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 59,819
	<hr/> <hr/>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Fund Food Services
Operating Revenues:	
Lunchroom sales	\$ 390,526
Other operating revenues	19,788
Total operating revenues	<u>410,314</u>
Operating Expenses:	
Salaries and wages	769,880
Materials and supplies	816,298
Depreciation expense	14,002
Other operating expenses	32,105
Total operating expenses	<u>1,632,285</u>
Operating loss	<u>(1,221,971)</u>
Non-Operating Revenues (Expenses):	
Federal grants	1,033,227
Federal grants - in-kind commodities	74,533
State grants	75,835
Interest income	171
Total non-operating revenues (expenses)	<u>1,183,766</u>
Net loss and changes in net assets	(38,205)
Net assets, July 1, 2004	<u>96,611</u>
NET ASSETS, JUNE 30, 2005	<u><u>\$ 58,406</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Proprietary Fund Type Enterprise Fund
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 437,036
Cash paid to/for:	
Employees	(769,880)
Supplies	(751,470)
Other activities	(32,105)
	<u>(1,116,419)</u>
Net cash used by operating activities	<u>(1,116,419)</u>
Cash Flows from Non-Capital Financing Activities:	
Government grants	<u>1,109,062</u>
Cash Flows from Investing Activities:	
Receipt of interest income	<u>171</u>
Net decrease in cash and cash equivalents	(7,186)
Cash and cash equivalents, July 1, 2004	<u>(86,148)</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2005	<u><u>\$ (93,334)</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$(1,221,971)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	14,002
Commodities used	74,533
Change in assets and liabilities:	
Receivables	26,722
Inventory	(953)
Accounts payable	(8,752)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$(1,116,419)</u></u>
Schedule of Non-Cash Transactions:	
Donated commodities received from federal government	<u><u>\$ 74,533</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$34,738	\$293,271
Accounts receivable	-	11,121
	<hr/>	<hr/>
Total assets	34,738	304,392
	<hr/>	<hr/>
Liabilities:		
Accounts payable	-	1,170
Due to student groups	-	54,189
Due to students in general	-	248,558
Due to teachers	-	475
	<hr/>	<hr/>
Total liabilities	-	304,392
	<hr/>	<hr/>
NET ASSETS HELD IN TRUST FOR SCHOLARSHIPS	<u>\$34,738</u>	<u>\$ -</u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private- Purpose Trust Funds
Additions:	
Net interest and investment gains	<u>\$ 5,834</u>
Deductions:	
Benefits paid	<u>-</u>
Change in net assets	5,834
Net assets, beginning of year	<u>28,904</u>
NET ASSETS, END OF YEAR	<u><u>\$34,738</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 - Reporting Entity:

The Paducah Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Paducah Independent School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirement of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards because Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Paducah Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The Board is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements as blended component units.

Paducah Independent School District Finance Corporation – In 1989, the Paducah Board of Education resolved to authorize the establishment of the Paducah Independent School District Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Paducah Board of Education also comprise the Corporation's Board of Directors.

Paducah Public Schools Foundation, Inc. – The Paducah Public Schools Foundation, Inc. (Foundation) was organized as a nonprofit corporation under Chapter 273 of the Kentucky Revised Statutes. The Foundation was formed for the purpose of establishing an education endowment fund to support education programs of the Paducah Public Schools. Resources for activities of the Foundation are primarily provided by contributions from the public. The Foundation is financially accountable to the Board.

Note 2 - Summary of Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The Fiduciary funds are reported using the economic resource measurement focus.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The District has the following funds:

a. Governmental Fund Types

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards. This is a major fund of the District.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

b. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$74,533 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

c. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

Agency funds account for assets held by the District in a purely custodial capacity. Since Agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*. The other funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year in which they were levied for government-wide financial statements.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Property Taxes

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.618 per \$100 valuation for real property, \$.619 per \$100 valuation for business personal property and \$.566 per \$100 valuation for motor vehicles.

The District also levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communication services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Budgetary Process

Budgetary Basis of Accounting - The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

The District considered demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Debt Costs

Unamortized debt issuance costs in the amount of \$60,898 and unamortized discounts of \$74,005 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the effective interest method.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, printers and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

All capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	10 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies:

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance is available for appropriations and expenditures in future periods.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 - Restatement of Fund Balance and Net Assets:

At June 30, 2004, an amount was recorded as accrued short-term sick leave for the General Fund. It was subsequently determined that there should have been no short-term sick leave liability at June 30, 2004.

The restatement for the correction is as follows:

General Fund balance, June 30, 2004	\$ 940,014
Correction of beginning accrued short-term sick leave	<u>200,000</u>
ADJUSTED GENERAL FUND BALANCE, JUNE 30, 2004	<u>\$1,140,014</u>
Governmental activities net assets, June 30, 2004	\$3,946,944
Correction of beginning accrued short-term sick leave	<u>200,000</u>
GOVERNMENTAL ACTIVITIES NET ASSETS, JUNE 30, 2004	<u>\$4,146,944</u>

Note 4 - Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 5 - Cash and Cash Equivalents:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency.

At year end, the carrying amount of the District's cash and cash equivalents was \$1,375,067 and the bank balance was \$2,333,768. The bank balance includes \$1,560,783 of deposits in two financial institutions and \$772,985 in the Federated U.S. Government Bond Fund which is valued at fair market value. Of the bank balance, \$174,969 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The remaining balance of \$2,158,799 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6 - Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance			Balance
Governmental Activities:	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land	\$ 503,386	\$ -	\$ -	\$ 503,386
Construction-in-progress	-	258,837	-	258,837
Land improvements	957,652	-	-	957,652
Buildings and improvements	22,428,980	-	-	22,428,980
Technology equipment	2,159,014	67,152	(36,700)	2,189,466
General equipment	331,127	5,315	-	336,442
Vehicles	<u>1,977,465</u>	<u>-</u>	<u>-</u>	<u>1,977,465</u>
Totals at historical cost	<u>28,357,624</u>	<u>331,304</u>	<u>(36,700)</u>	<u>28,652,228</u>
Less accumulated depreciation:				
Land improvements	898,426	20,489	-	918,915
Building and improvements	14,257,034	433,198	-	14,690,232
Technology equipment	1,690,410	174,380	(36,700)	1,828,090
General equipment	194,011	20,617	-	214,628
Vehicles	<u>1,488,361</u>	<u>89,205</u>	<u>-</u>	<u>1,577,566</u>
Total accumulated depreciation	<u>18,528,242</u>	<u>737,889</u>	<u>(36,700)</u>	<u>19,229,431</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS – NET	<u>\$ 9,829,382</u>	<u>\$ (406,585)</u>	<u>\$ -</u>	<u>\$ 9,422,797</u>
Business-type Activities:				
Food service and equipment	\$ 399,043	\$ -	\$ -	\$ 399,043
Technology equipment	<u>9,290</u>	<u>-</u>	<u>-</u>	<u>9,290</u>
Totals at historical cost	<u>408,333</u>	<u>-</u>	<u>-</u>	<u>408,333</u>
Less accumulated depreciation:				
Food service equipment	348,357	12,444	-	360,801
Technology equipment	<u>6,953</u>	<u>1,558</u>	<u>-</u>	<u>8,511</u>
Total accumulated depreciation	<u>355,310</u>	<u>14,002</u>	<u>-</u>	<u>369,312</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS – NET	<u>\$ 53,023</u>	<u>\$ (14,002)</u>	<u>\$ -</u>	<u>\$ 39,021</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6 - Capital Assets:

Depreciation expense was charged to governmental functions as follows:

Instruction	\$583,669
Support Services:	
Student	4,157
Instructional staff	17,145
District administration	19,714
School administration	12,510
Business	970
Plant operations and maintenance	5,261
Student transportation	74,603
Central office support	527
Community services	<u>19,333</u>
 TOTAL DEPRECIATION EXPENSE	 <u>\$737,889</u>

Note 7 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as lease obligations represents the District's future obligations to make lease payments related to school building revenue bonds issued by the Paducah Independent School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Finance Corporation to construct school facilities and the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
April 1, 1993	\$3,275,000	2.25%-4.75%
January 15, 1998	1,890,000	4.10%-5.00%
January 15, 1998	1,520,000	3.90%-4.25%
May 1, 1998	2,180,000	3.90%-4.75%
January 1, 1999	1,650,000	4.50%
March 1, 2000	920,000	5.15%-6.00%
April 1, 2001	265,000	5.05%

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 7 - Bond and Lease Obligations:

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Bonds Due</u>	<u>Interest Due</u>	<u>Total Requirements For Year</u>
2005-2006	\$ 545,000	\$ 325,649	\$ 870,649
2006-2007	570,000	301,596	871,596
2007-2008	590,000	280,805	870,805
2008-2009	615,000	254,470	869,470
2009-2010	510,000	226,895	736,895
2010-2011	535,000	202,845	737,845
2011-2012	565,000	177,113	742,113
2012-2013	590,000	149,718	739,718
2013-2014	420,000	121,037	541,037
2014-2015	445,000	101,290	546,290
2015-2016	460,000	80,365	540,365
2016-2017	485,000	58,667	543,667
2017-2018	505,000	35,470	540,470
2018-2019	185,000	11,335	196,335
2019-2020	30,000	2,825	32,825
2020-2021	<u>25,000</u>	<u>1,262</u>	<u>26,262</u>
TOTALS	<u>\$7,075,000</u>	<u>\$2,331,342</u>	<u>\$9,406,342</u>

A summary of the lease principal balance activity was as follows:

	<u>Balance July 1, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>
District	<u>\$7,595,000</u>	<u>\$ -</u>	<u>\$520,000</u>	<u>\$7,075,000</u>

Note 8 - Commitments Under Non-Capitalized Leases:

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2005, as follows:

<u>Fiscal Year</u>	
2005-2006	\$ 8,569
2006-2007	7,351
2007-2008	3,920
2008-2009	<u>1,860</u>
TOTAL	<u>\$21,700</u>

Rent expense for the year ended June 30, 2005, was \$11,957.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 - Retirement Plans:

Plan Descriptions

The Paducah Independent School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan.

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800
(502) 573-3266

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601-6124
(502) 564-4646

Funding Policies

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 9.855% of their annual covered salary and the State provides a contribution of 13.105%, except for federal programs. The 13.105% matching contribution for covered salaries of federal programs are paid by that program. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary and the Paducah Independent School District provides a contribution of 8.47% of that salary. The District's total payroll for the year was \$18,197,603. The payroll for employees covered under KTRS was \$13,350,558. For the year ended June 30, 2005, the Commonwealth contributed \$1,532,370 to KTRS for the benefit of participating employees. The District's contribution to KTRS for the year ended June 30, 2005, was \$217,220, which represents those employees covered by federal programs. The contribution requirements and the amounts contributed to CERS were \$595,825, \$558,554, and \$499,486, respectively, for the years ended June 30, 2005, 2004, and 2003.

Note 10 - Benefits Funded by Kentucky State Department of Education:

For the year ended June 30, 2005, the Kentucky State Department of Education contributed estimated payments benefiting the District as follows:

Contributions to Kentucky Teachers' Retirement System	\$1,532,370
Technical Education	69,908
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>1,677,898</u>
TOTAL	<u>\$3,280,176</u>

These payments are recorded in the District's financial statements as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 11 - Commitments and Contingencies:

Construction Commitments

The District has a construction contract for a major addition to its bus facility. As of June 30, 2005, the balance of the contract commitments was \$307,540. This includes \$20,206 in retainage recognized as construction retainage in the government-wide financial statements.

Grant Contingencies

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For governmental agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

Note 12 - Insurance and Related Activities:

The Paducah Independent School District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include workers' compensation insurance.

Note 13 - Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverages listed on pages 44 through 46 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 14 - COBRA:

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

Note 15 - Excess of Expenditures over Appropriations:

Actual expenditures appear to exceed appropriations in the Special Revenue Fund groups. The total appropriations differ from individual fund appropriations due to inaccuracies in the software relating to the budget process. Expenditures do not exceed appropriations for the individual funds within those groups.

Note 16 - Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Grant Overspent	\$125,497
Operating	320	400	Debt Service	671,252
Operating	310	400	Debt Service	196,167
Operating	2	1	Indirect Costs	79,519

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
Revenues:	Original	Final	Actual	
From local sources:				
Taxes	\$ 7,226,487	\$ 7,226,487	\$ 7,057,920	\$ (168,567)
Other	215,570	215,570	130,989	(84,581)
Intergovernmental - state	9,551,384	9,551,384	12,554,937	3,003,553
Intergovernmental - federal	13,500	13,500	63,690	50,190
Other sources	103,300	103,300	86,975	(16,325)
Total revenues	17,110,241	17,110,241	19,894,511	2,784,270
Expenditures:				
Instruction	9,317,056	9,473,213	12,206,112	(2,732,899)
Support services:				
Student	654,856	657,848	752,403	(94,555)
Instructional staff	715,890	731,390	723,100	8,290
District administration	796,921	785,216	898,582	(113,366)
School administration	1,496,897	1,523,080	1,671,365	(148,285)
Business	789,210	758,315	750,589	7,726
Plant operations and maintenance	2,297,348	2,319,151	2,391,588	(72,437)
Student transportation	868,700	902,143	780,943	121,200
Non-instructional	-	1,987	1,987	-
Contingency	917,734	679,712	-	679,712
Other	140,000	139,200	125,497	13,703
Total expenditures	17,994,612	17,971,255	20,302,166	(2,330,911)
Excess (deficit) of revenues over expenditures	(884,371)	(861,014)	(407,655)	453,359
Net change in fund balances	(884,371)	(861,014)	(407,655)	453,359
Fund balances, July 1, 2004	884,371	861,014	1,140,014	279,000
FUND BALANCES, JUNE 30, 2005	\$ -	\$ -	\$ 732,359	\$ 732,359

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented above does not include amounts for benefits funded by the Kentucky State Department of Education.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
Revenues:	Original	Final	Actual	
Earnings on investments	\$ 50	\$ 707	\$ 2,247	\$ 1,540
Intergovernmental - state	1,082,921	1,095,595	1,021,405	(74,190)
Intergovernmental - federal	4,811,975	4,907,004	4,579,693	(327,311)
Other sources	140,528	188,971	194,731	5,760
Total revenues	6,035,474	6,192,277	5,798,076	(394,201)
Expenditures:				
Instruction	4,781,648	4,815,685	4,573,968	241,717
Support services:				
Student	77,706	91,766	57,853	33,913
Instructional staff	323,754	327,231	297,075	30,156
District administration	-	9,048	8,655	393
School administration	264,325	260,482	235,428	25,054
Plant operations and maintenance	48,952	43,652	36,082	7,570
Student transportation	48,426	137,244	47,509	89,735
Community service activities	439,695	456,201	461,987	(5,786)
Other	50,968	50,968	79,519	(28,551)
Total expenditures	6,035,474	6,192,277	5,798,076	394,201
Excess (deficit) of revenues over expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2004	-	-	-	-
FUND BALANCES, JUNE 30, 2005	\$ -	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>ASSETS</u>	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	<u>\$174,442</u>	<u>\$74,969</u>	<u>\$249,411</u>
TOTAL ASSETS	<u><u>\$174,442</u></u>	<u><u>\$74,969</u></u>	<u><u>\$249,411</u></u>
 <u>FUND BALANCES</u>			
Reserved for encumbrances	\$ 49,243	\$ -	\$ 49,243
Unreserved:			
Undesignated, reported in:			
Capital project funds	125,199	-	125,199
Debt service funds	<u>-</u>	<u>74,969</u>	<u>74,969</u>
TOTAL FUND BALANCES	<u><u>\$174,442</u></u>	<u><u>\$74,969</u></u>	<u><u>\$249,411</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:			
Earnings on investments	\$ 3,221	\$ 8	\$ 3,229
Intergovernmental - state	263,730	-	263,730
Total revenues	<u>266,951</u>	<u>8</u>	<u>266,959</u>
Expenditures:			
Debt service:			
Principal	-	520,000	520,000
Interest	-	351,310	351,310
Total expenditures	<u>-</u>	<u>871,310</u>	<u>871,310</u>
Excess (deficit) of revenues over expenditures	<u>266,951</u>	<u>(871,302)</u>	<u>(604,351)</u>
Other Financing Sources (Uses):			
Operating transfers in	-	867,419	867,419
Operating transfers out	(196,167)	-	(196,167)
Total other financing sources (uses)	<u>(196,167)</u>	<u>867,419</u>	<u>671,252</u>
Net change in fund balances	70,784	(3,883)	66,901
Fund balances, July 1, 2004	<u>103,658</u>	<u>78,852</u>	<u>182,510</u>
FUND BALANCES, JUNE 30, 2005	<u><u>\$174,442</u></u>	<u><u>\$ 74,969</u></u>	<u><u>\$249,411</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Due to Student Groups and Others July 1, 2004	Revenues Actual (1)	Expenditures Actual (1)	Due to Student Groups and Others June 30, 2005
American Studies Fund	\$ 826	\$ 17,162	\$ 17,487	\$ 501
Art Club Fund	774	10,182	10,852	104
Arts and Humanities	245	735	490	490
Athletic Association Fund	19,532	331,039	343,022	7,549
Band Fund	517	14,717	12,924	2,310
Bell Fund	1,606	5,622	6,744	484
Beta Club Fund	685	385	585	485
Book Fund	1,065	917	875	1,107
Boys' State Track	161	-	161	-
Boys' Track Cards	-	7,707	7,707	-
Boys' Track Shirts	-	7,802	7,802	-
Building Rentals Fund	7,888	7,524	11,254	4,158
CBS	-	169	-	169
Choir Fund	1,955	4,979	6,308	626
Clearing Fund	-	9,750	9,750	-
DDA Interest	-	642	642	-
Drama Fund	445	445	445	445
A.P. Test Fees Fund	2,243	17,250	17,496	1,997
FBLA Fund	-	876	620	256
FCA Fund	426	140	250	316
FCCLA Fund	441	6,968	7,409	-
FEA	257	283	540	-
Foreign Language Club Fund	28	-	28	-
French Club	20	-	-	20
Gear Up Grant	2,008	-	-	2,008
General Fund	3,356	34,835	22,654	15,537
German Club Fund	83	-	-	83
Girls' Track Shirts	-	765	765	-
Goals 2000 Fund	56	-	56	-
GTC: Debate & A Team Fund	-	2,088	2,088	-
Ink Cartridges	1,216	-	-	1,216
KY Y Club	520	60	493	87
Library Fund	266	431	419	278
McRight Fund	1,362	-	100	1,262
Multi-Cultural Club	26	5	31	-
Musical	-	26,995	23,739	3,256
National Honor Society Fund	354	1,304	964	694
NJROTC Activity Fund	831	9,614	10,445	-
NJROTC Trip Fund	-	7,605	7,605	-
Pathways Fund	18,206	32,260	39,352	11,114
Physics Account Fund	4	-	-	4
Plan/PSAT Test Fee	485	825	715	595
Prime Rib/Concordia	985	850	-	1,835

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Due to Student Groups and Others July 1, 2004	Revenues Actual (1)	Expenditures Actual (1)	Due to Student Groups and Others June 30, 2005
Project Graduation Fund	\$ 120	\$ 100	\$ -	\$ 220
Prom '04 Fund	1,028	3,765	4,390	403
PTHS Donations	3,008	-	-	3,008
Rewards	4,845	-	4,845	-
SADD	177	-	-	177
Scholarship Fund	705	-	-	705
School Store Fund	4,655	4,893	8,548	1,000
Science Club	-	750	311	439
Senior Retreat	-	6,232	5,677	555
Social Account Fund	457	1,114	1,571	-
Spanish Club Fund	221	520	741	-
Special Band	-	9,470	5,433	4,037
Special Baseball Fund	7	1,286	1,293	-
Special Boys' Basketball Fund	380	1,157	1,537	-
Special Boys' Track Fund	569	5,937	6,503	3
Special Business	-	636	636	-
Special Cheerleader Fund	1,535	4,714	4,605	1,644
Special Cross Country Fund	-	922	922	-
Special Football Fund	2,666	13,471	16,133	4
Special Girls' Basketball Fund	2,308	7,138	6,933	2,513
Special Girls' Track Fund	931	3,857	4,305	483
Special Golf Fund	175	-	175	-
Special Soccer, Boys	5	-	-	5
Special Softball Fund	2,411	-	2,411	-
Special Swim Team	-	576	576	-
Special Volleyball	82	3,676	3,758	-
Special Wrestling	3,150	-	3,150	-
Student Council Fund	264	794	986	72
Student Fees Fund	7,144	15,155	15,160	7,139
Technology Fund	2,605	695	143	3,157
Teen Link	61	-	-	61
Tornado League	1,184	4,735	4,925	994
Transcripts Fund	151	192	343	-
Uniform Maintenance	-	110	-	110
Unit Maintenance	1,942	623	2,565	-
Vendor Fund	10,281	3,490	7,711	6,060
TOTALS	<u>\$121,939</u>	<u>\$658,939</u>	<u>\$689,103</u>	<u>\$ 91,775</u>

(1) Included in receipts and disbursements are interfund transfers totaling \$181,506.

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Paducah Middle</u>	<u>Emma Morgan</u>	<u>Cooper - Whiteside</u>	<u>McNabb</u>	<u>Clark</u>	<u>Totals</u>
Due to student groups and others, July 1, 2004	<u>\$23,604</u>	<u>\$30,954</u>	<u>\$ 763</u>	<u>\$26,930</u>	<u>\$39,789</u>	<u>\$122,040</u>
Revenues:						
Student activities	<u>75,750</u>	<u>37,407</u>	<u>5,207</u>	<u>48,228</u>	<u>66,774</u>	<u>233,366</u>
Expenditures:						
Student activities	<u>73,528</u>	<u>41,325</u>	<u>4,343</u>	<u>56,497</u>	<u>72,161</u>	<u>247,854</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2005	<u><u>\$25,826</u></u>	<u><u>\$27,036</u></u>	<u><u>\$1,627</u></u>	<u><u>\$18,661</u></u>	<u><u>\$34,402</u></u>	<u><u>\$107,552</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
SPECIAL ACTIVITIES FUND
FOR THE YEAR ENDED JUNE 30, 2005

Revenues:

From local sources:

Earnings on investments

\$ 3,306

Other local revenues

15,619

Total revenues

18,925

Expenditures:

Student activities

48,833

Excess (deficit) of revenues over expenditures

(29,908)

Due to student groups and others, July 1, 2004

133,803

DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2005

\$103,895

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2005

In its Annual Financial Report required by the Kentucky Department of Education, the Board has not recorded certain revenues and expenditures of the expendable trust funds. The following is a reconciliation of the revenues and expenditures reported in the Board's Annual Financial Report with that shown in the financial statements and the supplemental schedules.

	Expendable Trust Funds (Special Activities Fund)	Private -Purpose Trust Funds	Totals
Other local revenue as reported to the Department of Education	\$ 8,869	\$ -	\$ 8,869
Additional revenue not recorded	<u>6,750</u>	<u>-</u>	<u>6,750</u>
	<u>15,619</u>	<u>-</u>	<u>15,619</u>
Net interest and investment gains as reported to the Department of Education	3,239	5,834	9,073
Additional interest not recorded	<u>67</u>	<u>-</u>	<u>67</u>
	<u>3,306</u>	<u>5,834</u>	<u>9,140</u>
TOTALS	<u><u>\$18,925</u></u>	<u><u>\$5,834</u></u>	<u><u>\$24,759</u></u>
Expenditures as reported to the Department of Education	\$37,382	\$ -	\$37,382
Additional expenditures not recorded	<u>11,451</u>	<u>-</u>	<u>11,451</u>
TOTALS	<u><u>\$48,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$48,833</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2005

General Fund:

Accounts receivable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$142,694
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Additional accounts receivable recorded subsequent to the annual financial report:

Various utility companies - utility tax	134,964
City of Paducah - property tax	55,311
UST - ROTC Reimbursement	12,198
Murray State University - reimbursement	557
West Kentucky Educational Coop - Migrant Program	<u>18</u>

TOTAL ACCOUNTS RECEIVABLE	<u><u>\$345,742</u></u>
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See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS PAYABLE
JUNE 30, 2005

General Fund:

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$110,240
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Additional accounts payable recorded subsequent to the
annual financial report:

Paducah Power System - electricity	11,625
Elan Financial Services	1,045
Atmos Energy Corporation	747
Miscellaneous	74
	<hr/>

TOTAL ACCOUNTS PAYABLE	<u><u>\$123,731</u></u>
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PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2005

Property Covered:	Type of Coverage	Amount	Deductible Per Occurrence	Type of Limit
School buildings and contents - all school buildings and dwelling and Paducah Tilghman Stadium	Fire, lightning and extended coverage, vandalism and malicious mischief	\$83,894,681	\$ 5,000	Per occurrence
	Equipment breakdown	125,000	5,000	Per occurrence
	Mower and trailers	20,998	250	Per occurrence
	Computer equipment	351,000	500	
Workmen's compensation	Kentucky statutory coverage	1,000,000		
School Board members, superintendents, administrators, teachers, and classified employees	Comprehensive general liability	1,000,000 2,000,000		Per occurrence Annual aggregate
School Board members and employee liability insurance	Errors and omissions wrongful acts	1,000,000		
Head Start	Comprehensive general liability	300,000 50,000	250	Liability Deductible Property damage
Student Insurance:				
Catastrophic accident medical expense		5,000,000	25,000	
Accident medical expense/ heart and circulatory malfunction		25,000		
Accidental death and dismemberment		1,000		
Field trip:				
Accident medical		100,000	25	
Sickness medical		25,000	25	
Accidental death, dismemberment or loss of sight		25,000	25	
Special events insurance		1,000,000 1,000,000	250	Per occurrence Annual aggregate

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2005

Automobile Liability:	<u>Amount of Coverage</u>	<u>Comprehensive</u>	<u>Collision Deductible</u>
1975 Ford two ton truck, flat dump		ACV	\$500
1982 GMC flat bed		ACV	500
1985 Chevrolet 1/4 ton pickup		ACV	500
1986 Chevrolet truck		ACV	500
1990 Dodge 3/4 ton truck		ACV	500
1995 Ford 3/4 ton truck		ACV	500
1995 Ford 3/4 ton truck		ACV	500
2002 Ford Windstar		ACV	500
2002 Ford Windstar		ACV	500
1997 Ford pickup 4 by 4		ACV	500
1997 Ford pickup 4 by 4		ACV	500
1997 Ford Contour		ACV	500
1998 Ford Econoline van		ACV	500
1999 Ford van (diesel)		ACV	500
1999 Ford van (diesel)		ACV	500
2002 Ford Excursion		ACV	500
2002 Ford Excursion		ACV	500
Coverage on all the above vehicles includes:			
Liability limit per occurrence, including property damage and bodily injury	\$2,000,000		
Property damage	100,000		
Uninsured/Underinsured motorist	60,000		
Head Start Vehicles:			
1995 International bus - 70 passenger		ACV	500
1991 Chevrolet bus		ACV	500
1987 GMC bus		ACV	500
1999 Chevrolet Suburban		ACV	500
Coverage on Head Start vehicles includes:			
Liability limit per occurrence	2,000,000		
Personal injury protection	10,000		
Uninsured motorist	60,000		
Bus Liability:			
Thirty-nine school buses - coverage includes:			
Public liability	2,000,000		
Uninsured/underinsured motorist	60,000		
Comprehensive		ACV	250
Collision		ACV	500

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2005

Fidelity Bonds:

Treasurer of the Board

<u>Amount</u>
\$ 200,000

Depository Bonds:

The Paducah Bank and Trust Company, Paducah, Kentucky
on deposit with AmSouth Capital Markets of
Nashville, Tennessee:
Federal Government Agency Obligations

1,874,429

See auditor's report on pages 1-2.

**PADUCAH INDEPENDENT SCHOOL DISTRICT
MEMBERS OF THE BOARD
AS OF JUNE 30, 2005**

<u>Name</u>	<u>Date Elected</u>	<u>Term Expires</u>
Danette Humphrey Chair	November, 2002	January, 2007
Felix Akojie Vice Chair	November, 2003	January, 2007
William R. Black, Jr.	November, 2004	January, 2009
Janice Howard	November, 2004	January, 2009
Carl Lebuhn	April 1, 2005 (appointed)	January, 2006

Other Officials:

Dr. Randy Green, Superintendent

Ms. Julie Huff, Finance Officer and Treasurer of the Board

Ms. Lisa Stroup, Secretary of the Board

Ms. Vickie Maley, Assistant Superintendent, Director of District Instructional Programs

Mr. Lyman Brown, Director of Pupil Personnel Services

Dr. Tom Ballowe, Director of Special Programs

Mr. Dennis Jackson, Director of Personnel

Mr. Jeff Nelson, Director of Technology

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Direct Programs:			
School Assistance in Federally Affected Areas	84.041	N/A	\$ 16,393
Passed-through Kentucky Department of Education:			
Title I, Improving America's Schools	84.010	35104 01	1,533,194
Act of 1994 (ESEA)		35105 01	
Title I, Improving America's Schools			
Act of 1994 (ESEA) - Migratory Children	84.011	35205 02	13,772
Title VI, Improving America's Schools		53303 02	
Act of 1994 (ESEA)	84.298	53304 02	
		53305 02	19,934
Individuals with Disabilities Education Act -		58104 02	
Part B	84.027	58105 02	644,350
Individuals with Disabilities Education Act -		58703 02	
Part B, Preschool	84.173	58704 02	
		58705 02	58,672
Vocational Education - Basic Grants to States	84.048	46203 32	
		46204 32	
		46205 32	36,147
Safe & Drug Free Schools and Communities	84.186	59003 02	
		59004 02	
		59005 02	33,513
Improving Teacher Quality	84.367	71004 02	
		71005 02	340,216
English Language Acquisition Grants	84.365	52003 02	
		52004 02	
		52005 02	15,303
Education Technology	84.318	73604 02	34,232
Reading First	84.357	52203 02	
		52204 02	220,966
Total U.S. Department of Education			<u>2,966,692</u>
U.S. Department of Agriculture:			
Passed-through Kentucky Department of Agriculture:			
Food Donation (1)	10.550	N/A	74,533
Passed-through Kentucky Department of Education:			
National School Lunch Program	10.555	57504 02	
		57505 02	742,626
School Breakfast Program	10.553	57604 05	
		57605 05	290,601
Passed-through City of Paducah:			
Parks and Recreation Department Summer Food			
Service Program for Children	10.559	N/A	29,520
Total U.S. Department of Agriculture			<u>1,137,280</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Direct Programs:			
Administration for Children - Head Start	93.600	N/A	<u>\$1,643,261</u>
U.S. Department of Defense			
Direct Program:			
ROTC Fiscal Year 2005	12.000	N/A	<u>47,297</u>
TOTAL FEDERAL AWARDS			<u><u>\$5,794,530</u></u>

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net assets.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Paducah Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An
Audit Of Financial Statements Performed In Accordance With
*Government Auditing Standards***

Kentucky State Committee for
School District Audits
Paducah Independent School District
Members of the Board
Paducah, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2005, which collectively comprise the Paducah Independent School District's basic financial statements and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Paducah Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the District in a separate letter dated July 28, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paducah Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed immaterial instances of noncompliance of specific state statutes or regulations identified in audit requirements prescribed by the State Committee for School District Audits in *Appendix II of the Independent Auditor's Contract – State Audit Requirements* as reported to management of the District in a separate letter dated July 28, 2005.

This report is intended solely for the information and use of management, members of the Board, federal award agencies, pass-through entities, and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Williams, William & Lenty, LLP

July 28, 2005

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**Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Kentucky State Committee for
School District Audits
Paducah Independent School District
Members of the Board
Paducah, Kentucky

Compliance

We have audited the compliance of Paducah Independent School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Paducah Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paducah Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Paducah Independent School District's compliance with those requirements.

In our opinion, Paducah Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Paducah Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, members of the Board, federal awarding agencies, pass-through entities, and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Williams, William & Lenty, LLP

July 28, 2005

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Paducah Independent School District.
2. No reportable conditions were disclosed during the audit of the financial statements of the Paducah Independent School District.
3. No instances of noncompliance material to the financial statements of the Paducah Independent School District were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs.
5. The auditor's report on compliance for the major federal awards programs for the Paducah Independent School District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs to be reported.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA #</u>
Title I – Improving America's Schools Act of 1994 (ESEA)	84.010
National School Lunch Program/ School Breakfast Program/ Summer Food Service Program for Children	10.555/ 10.553/ 10.559 (Cluster)
Individuals with Disabilities Education Act – Part B	84.027/
Individuals with Disabilities Education Act – Part B, Preschool	84.173 (Cluster)

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Paducah Independent School District was determined to be a low-risk auditee.

Findings – Financial Statements Audit

None

Findings and Questioned Costs – Major Federal Awards Programs

None

**PADUCAH INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

There are no prior year findings to report.

PADUCAH INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2005

WILLIAMS, WILLIAMS & LENTZ, LLP
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Paducah Independent School District
Members of the Board
Paducah, Kentucky

We have audited the financial statements of the Paducah Independent School District for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. In planning and performing our audit of the financial statements of Paducah Independent School District, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. We also noted several immaterial instances of noncompliance with applicable laws and regulations, which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized as follows:

PAYROLL

1. During our payroll disbursement testing, we noted that an employee was overpaid during the year due to his having received supplemental pay for four months rather than for the correctly calculated three monthly pay periods. We recommend that an additional level of review be added for those employees with special payroll calculations.

FOOD SERVICE

1. As stated in the prior year audit, the formulas on the district summary sheets and the monthly summary sheets should be checked for accuracy. Our audit revealed that the monthly and yearly summaries for some of the schools did not trace to the district summary correctly.
2. As stated in the prior year audit, the person receiving goods should initial or sign the invoice or packing slip, indicating that the goods were received as ordered. There were three invoices included in our audit sample that were not properly signed or initialed.
3. As stated in the prior year audit, any bid renewals or escalation sheets should be filed with the original bid contracts.
4. One item chosen for our disbursements testing was a reimbursement to the food service coordinator for expenses paid personally. We recommend that such reimbursements be approved by someone other than the food service coordinator.

All other prior year recommendations appear to have been properly addressed.

APPROVAL FOR PAYMENTS RELATED TO GRANTS

1. We recommend the grant budgets and individual grant expenditures exceeding \$1,000 be approved by the grant director and the administrative director.

ACTIVITY FUNDS

The following findings related to the activity funds are listed by school in order to ensure that the personnel in charge obtains the appropriate recommendations.

Paducah Tilghman High School

1. All invoices or expense reports should be marked cancelled when paid, either by stamping "PAID" or by attaching a copy of the check to the invoice, to prevent duplicate payments.
2. Ticket reports should be checked for accuracy in calculating tickets sold and money deposited. The number of tickets sold was miscalculated on one of the reports chosen for our audit testing.

All prior year recommendations appear to have been properly addressed.

Paducah Middle School

1. Checks are required to have two signatures. One of the checks chosen in our disbursements test had only one signature.
2. As reported in last year's management letter, according to "A Uniform Program of Account for School Activity Funds in Kentucky Schools," (the Red Book), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board.
3. As stated in the prior year audit, secondary receipts should be turned in promptly. One secondary receipt selected for testing was held for eighteen days before it was turned in to the Central Fund Treasurer.

All other prior year recommendations appear to have been properly addressed.

Clark Elementary School

1. Secondary receipts should be turned in promptly. One secondary receipt selected for testing was held for twelve days before it was turned in to the Central Fund Treasurer.

All prior year recommendations appear to have been properly addressed.

McNabb Elementary School

All prior year recommendations appear to have been properly addressed.

Cooper-Whiteside Elementary School

All prior year recommendations appear to have been properly addressed.

Morgan Elementary School

All prior year recommendations appear to have been properly addressed.

* * * * *

This report is intended solely for the Board, management, and others within the organization as deemed appropriate.



July 28, 2005

MANAGEMENT LETTER RESPONSES

YEAR ENDED JUNE 30, 2005

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Paducah, Kentucky

We have audited the financial statements of the Paducah Independent School District for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. In planning and performing our audit of the financial statements of Paducah Independent School District, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

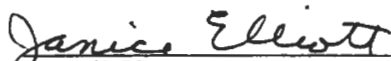
However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. We also noted several immaterial instances of noncompliance with applicable laws and regulations, which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized as follows:

PAYROLL

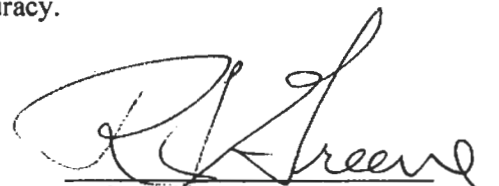
1. During our payroll disbursement testing, we noted that an employee was overpaid during the year due to his having received supplemental pay for four months rather than for the correctly calculated three monthly pay periods. We recommend that an additional level of review be added for those employees with special payroll calculations.

Response:

We have established and began using a new check sheet on all supplements. We balance against this check sheet each month to verify all supplements are being paid and that no supplement is being paid that is not due. Three people review this spreadsheet each month to verify accuracy.


Payroll Clerk


Finance Director


Superintendent

Paducah Board of Education
Food Service Department

Response to Audit Findings

Finding:

1. Some monthly and yearly school summaries did not trace to district summaries (money).

Response:

1. A misplaced formula was found and corrected. All counts and monies now trace from the school summaries to the district summaries.

Finding:

2. The person receiving goods should initial or sign invoices or packing slips.

Response:

2. A memo was sent to all persons receiving good instructing them to sign all invoices and packing slips are signed at receipt. The invoices and slips are also to be checked for signature by central office staff.

Finding:

3. All bid renewals and escalations sheets were not filed with the original bid.

Response:

3. Although all bid prices were changed on order guides and inventory sheets, the food escalation sheet was not in the bid packet. All bid documents, renewals and escalations are not being stored in the same file.

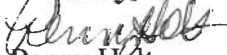
Finding:

4. Another party did not approve reimbursements to food service coordinator for expenses paid personally.

Response:

4. The food service coordinator's supervisor, however, the supervisor who was out of the office for a period of time, has previously always approved reimbursements. For all future disbursements, the financial director will be an additional person who will view and sign such documents should the coordinator's supervisor be unavailable for approval.

Sincerely,



Penny Holt

Food Service Coordinator

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Paducah Independent School District
Paducah, Kentucky

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APPROVAL FOR PAYMENTS RELATED TO GRANTS

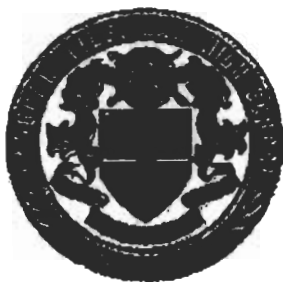
1. We recommend the grant budgets and individual grant expenditures exceeding \$1,000 be approved by the grant director and the administrative director.

We have already started asking the grant administrators at the director level to begin approving all expenditures exceeding the \$1,000 level. This means that an expenditure must have three approvals, the grant director, the administrative director (Director of Instruction or Special Services) and the Finance Director.


Finance Director


Director of Instruction


Director of Special Services



Paducah Tilghman High School

EST. 1913

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Paducah Tilghman High School
Response to Audit Findings
2004-2005

1. All invoices or expense reports will be stamped "PAID" with a stamp indicating the amount paid, the check number, date issued and authorization signature.
2. All ticket reports will be checked for accuracy in the calculation of tickets and the ticket report summary before deposits are made.

Ernest S. Davis 10/28/05
Treasurer Date

Art Davis 10/28/05
Principal Date



Paducah Middle School

342 Lone Oak Rd. • Paducah, KY 42001

Tim Huddleston - Principal

Assistant Principals

Bill Metzger

Christine M. Krueger

Counselors

Allison Hobbs

Martha St. Pierre

The following is in response to the comments made regarding the 2004-05 Student Activity Fund audit:

1. Checks are required to have two signatures. One of the checks chosen in our disbursements test had only one signature.

Two individuals sign checks; the check chosen in the disbursement test was an oversight. The treasurer will pay closer attention to signatures before mailing.

2. As reported in last year's management letter, according to "A Uniform Program of Account for School Activity Funds in Kentucky Schools," (the Red Book), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board.


The Principal has requested a budget from each individual activity fund sponsor. Once the individual budgets have been submitted, the Principal will prepare an overall budget for each of the student activity accounts.

3. As stated in the prior year audit, secondary receipts should be turned in promptly. Once secondary receipt selected for testing was held for eighteen days before it was turned in to the Central Fund Treasurer.

The Principal has sent a memo to all staff regarding prompt turnover of all funds collected to the Central Fund Treasurer. The treasurer will address this periodically by email as reminders.

Submitted October 17, 2005 by:


Tim Huddleston, Principal


Paulette K. Murray, Treasurer

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Paducah Independent School District
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ACTIVITY FUNDS

The following findings related to the activity funds are listed by school in order to ensure that the personnel in charge obtains the appropriate recommendations.

Clark Elementary School

1. Secondary receipts should be turned in promptly. One secondary receipt selected for testing was held for twelve days before it was turned in to the Central Fund Treasurer.

All prior year recommendations appear to have been properly addressed.

RESPONSE

We continue to remind staff that money is to be turned in promptly to the Central Fund Treasurer (one or two business days are reasonable). Teachers are reminded many times throughout the year verbally in staff meetings, in writing, and through e-mail that money is to be turned in promptly and not stored in classrooms.



Rosemary Via Roetteis, Central Fund Treasurer


Sara J. West, Principal

October 17, 2005